BANK INDONESIA

BANK INDONESIA REGULATION
NUMBER 1/10/PBI/1999

CONCERNING

PORTFOLIO OF GOVERNMENT BONDS FOR COMMERCIAL BANKS PARTICIPATING IN THE RECAPITALIZATION PROGRAM

THE GOVERNOR OF BANK INDONESIA,

Considering:

a. whereas for the purpose of the Commercial Bank Recapitalization Program the Government has issued trading bonds;

b. whereas to implement the trading of these Government Bonds, regulation is needed for the portfolio and registration of bonds held by Commercial Banks participating in the recapitalization program;

c. now therefore it is deemed necessary to formulate provisions concerning Portfolio of Government Bonds for Commercial Banks Participating in the Recapitalization Program in a Bank Indonesia Regulation;

In view of:

1. Act Number 7 of 1992 concerning Banking (State Gazette Number 31 of 1992, Supplement to the State Gazette Number 3472) as amended by Act Number 10 of 1998 (State Gazette Number 182 of 1998, Supplement to the State Gazette Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette Number 66 of 1999, Supplement to the State Gazette Number 3843);

3. Government Regulation Number 84 of 1998 concerning the Recapitalization Program for Commercial Banks (State Gazette Number 197 of 1998, Supplement to the State Gazette Number 3799);

HAS DECREED:

HAS DECREED:

To enact: **THE BANK INDONESIA REGULATION CONCERNING PORTFOLIO OF GOVERNMENT BONDS FOR COMMERCIAL BANKS PARTICIPATING IN THE RECAPITALIZATION PROGRAM**

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. Bank is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998, participating in the Commercial Bank Recapitalization Program;
2. Government Bonds, hereinafter referred to as Bonds, are rupiah-denominated Debt Instruments of the Republic of Indonesia, issued by the Government of Indonesia under the Commercial Bank Recapitalization Program as referred to in Government Regulation Number 84 of 1998;
3. Investment Portfolio is a portfolio of non-trading Bonds recorded in the books of a Bank;
4. Trading Portfolio is a portfolio of trading Bonds recorded in the books of a Bank.

Article 2

(1) Banks are prohibited from trading Bonds under their ownership until January 31, 2000.

(2) Banks are required to arrange bookkeeping entry of non-trading Bonds as referred to in paragraph (1) under their Investment Portfolio.

Article 3

(1) Banks may trade in Bonds commencing from February 1, 2000 to a maximum limit of 10% (ten percent) of the overall value of Bonds purchased when the Bank received cash equity participation from the Government under the Commercial Bank Recapitalization Program.

(2) Banks are required to inform Bank Indonesia of the total value of Bonds to be traded as referred to in paragraph (1) not later than January 21, 2000.

(3) Bank Indonesia ...

(3) Bank Indonesia shall stipulate the specifications and terms of the total value of Bonds as referred to in paragraph (2) and inform the Bank thereof in writing not later than January 26, 2000.

Article 4

(1) The percentage of trading Bonds as referred to in Article 3 paragraph (1) may be increased by Bank Indonesia if deemed necessary.

(2) Any increase as referred to in paragraph (1) shall be stipulated in a Circular Letter of Bank Indonesia.

Article 5

(1) Any Bank holding Bonds issued by the Government after January 31, 2000, as Government equity participation in cash under the Commercial Bank Recapitalization Program may conduct trading in Bonds to a maximum limit of the percentage in force as referred to in Article 3 or Article 4.

(2) A Bank is required to inform Bank Indonesia of the total value of Bonds to be traded as referred to in paragraph (1) not later than 5 (five) working days prior to trading of Bonds.

(3) Bank Indonesia shall stipulate the specifications and term of the total value of Bonds as referred to in paragraph (2) and inform the Bank thereof in writing.

Article 6

(1) Banks shall arrange bookkeeping transfer of any trading bonds as referred to in Article 3 paragraph (2) and Article 5 paragraph (2) from the Investment Portfolio to the Trading Portfolio.

(2) Banks shall enter any Bonds obtained through secondary market trading into their bookkeeping records under the Trading Portfolio.

(3) Banks are prohibited from arranging bookkeeping transfer of Bonds recorded in the Trading Portfolio to the Investment Portfolio.

Article 7

(1) Banks shall enter into their books any Bonds recorded in the Investment Portfolio at par value.

(2) Banks ...

(2) Banks shall enter into their books any Bonds recorded in the Trading Portfolio at fair market value.

Article 8

(1) Banks may secure Bonds recorded in their Trading Portfolio as collateral.

(2) Banks are prohibited from securing Bonds registered in the Investment Portfolio as collateral.

Article 9

(1) Prior to the period for Bond Trading as referred to in Article 3 paragraph (1), Banks are permitted to secure Bonds under their ownership as collateral with third parties with the approval of Bank Indonesia.

(2) Approval of Bank Indonesia as referred to in paragraph (1) shall be issued by taking into account:

a. The Bank is experiencing liquidity difficulties, including but not limited to violation of the Statutory Reserve provisions stipulated by Bank Indonesia;

b. The Bank has short-term interbank liabilities totaling not less than 50% (fifty percent) of its liabilities falling due; and

c. The term of borrowings received by the Bank against any such Bonds secured as collateral shall be at least 2 (two) months.

(3) The total value that may be approved by Bank Indonesia for securing as collateral shall be equal to the liquidity difficulties experienced by the Bank up to a maximum limit of 10% (ten percent) of the overall value of Bonds purchased at the date that the Bank received Government equity participation in cash under the Commercial Bank Recapitalization Program.

(4) Any Bonds secured as collateral as referred to in paragraph (1) shall be entered into the bookkeeping records under the Trading Portfolio.

(5) Any funds borrowed against Bonds secured as collateral as referred to in paragraph (1) shall be immediately appropriated for settlement of liabilities falling due, and for compliance with the Statutory Reserve.

(6) Banks shall deliver planned and realized appropriation of borrowed funds as referred to in paragraph (5).

(7) The provisions stipulated in this Article 9 shall remain effective only until January 31, 2000.

Article 10

Article 10

(1) Any Bank not implementing the provisions referred to in Article 2, Article 3 paragraph (2), Article 5 paragraph (2), Article 6, Article 7, Article 8 paragraph (2), Article 9 paragraph (1), paragraph (4), paragraph (5), and paragraph (6) shall be liable to administrative sanctions as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.

(2) The administrative sanctions referred to in paragraph (1) may comprise:

a. Written warning; and/or

b. Suspension of activity in Bond trading for not less than 3 (three) months; and/or

c. Listing of members of the management, bank employees, and shareholders in the list of disgraced persons in banking.

Article 11

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in Jakarta,

Date: December 3, 1999

THE GOVERNOR OF BANK INDONESIA

(signed)

SYAHRIL SABIRIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 211 OF 1999
DPNP

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER 1/10/PBI/1999

CONCERNING

PORTFOLIO OF GOVERNMENT BONDS FOR COMMERCIAL BANKS PARTICIPATING IN THE RECAPITALIZATION PROGRAM

GENERAL REVIEW

In follow up to the bank restructuring program, the Government has issued trading bonds for reinforcing the capital structure of banks.

Furthermore, the issuance of bonds is also intended to ease the liquidity position of banks, provide an alternative means for investment by the public, and at the same time promote securities trading activity on the secondary market.

This bond trading will be implemented in stages, taking into account developments in bond transactions/trading on financial markets and prudential principles for bank operations.

ARTICLE BY ARTICLE

Article 1

Number 1

Self-explanatory

Number 2

Self-explanatory

Number 3

Self-explanatory

Number 4

Self-explanatory

Article 2

Article 2

Paragraph (1)

Bonds held by a Bank are Bonds bought at the date that the Bank received Government cash equity participation in cash under the Commercial Bank Recapitalization Program.

These bonds may not be traded for the duration of the lock-up period, i.e., the period from the date of purchase of the Bonds until January 31, 2000.

Paragraph (2)

Self-explanatory

Article 3

Paragraph (1)

Self-explanatory

Paragraph (2)

In the event that a Bank reports a lower total value of trading Bonds than the percentage as referred to in paragraph (1), the amount reported shall be the limit of the total value of Bonds that may be traded by the Bank.

Paragraph (3)

Self-explanatory

Article 4

Paragraph (1)

The total value of trading Bonds shall be determined by taking into account the trading of the Bonds on the secondary market.

Paragraph (2)

Self-explanatory

Article 5

Paragraph (1)

Banks holding Government-issued Bonds after January 31, 2000, are defined as Banks receiving Government equity participation in cash within the framework of the Commercial Bank Recapitalization Program after that date.

Paragraph (2)

In the event that a Bank reports a lower total value of trading bonds than the percentage as referred to in paragraph (1), the total value reported shall be the limit on the value of Bonds that may be traded by the Bank.

Paragraph (3)

Self-explanatory

Article 6

Paragraph (1)

Bonds transferred by book keeping transfer shall conform to the specifications of type and term of Bonds as stipulated by Bank Indonesia.

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Article 7

Paragraph (1)

Self-explanatory

Paragraph (2)

Fair market value shall be measured by multiplying the volume of trading Bonds (the Trading Portfolio) by the market price (mark to market) formed by the quotation of average closing prices on the day concerned.

Article 8

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Article 9

Paragraph (1)

Third party is defined as a creditor other than Bank Indonesia.

The allowing of Banks to raise borrowings from third parties by securing Bonds in their possession as collateral during the lock-up period is intended as an anticipatory measure for possible large-scale withdrawals of funds by bank depositors within a

relatively ...

relatively short period triggered by concerns over year 2000 computer problems.

Paragraph (2)

Letter a

Self-explanatory

Letter b

Liabilities falling due are other liabilities accounts falling due as stipulated in the provisions in force concerning the Annual Financial Statement and the Published Financial Statement.

Letter c

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Paragraph (5)

Self-explanatory

Paragraph (6)

Self-explanatory

Paragraph (7)

Self-explanatory

Article 10

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Article 11

Self-explanatory

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 3917

DPNP